MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TERM ID 2215)

PEM0024 – ESSENTIALS OF MICROECONOMICS

13th FEBRUARY 2023
9.00 a.m. to 11.00 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **FOURTEEN (14) pages** excluding the cover page with **60** Multiple Choice Questions (MCQs) only.
2. Attempt **ALL** questions.
3. Please write all your answers in the OMR provided.

Instruction: Answer all questions in the OMR provided.

1. Microeconomics is concerned with _____.
   A. the study of entire economics.
   B. the study of specific economic units.
   C. the study of aggregate demand and aggregate supply.
   D. the study of economics generally.

2. _____ refers to the types of goods produced in a country.
   A. What to produce?
   B. How to produce?
   C. How much to produce?
   D. For whom to produce?

3. Which of the following can illustrate the law of increasing opportunity costs?
   A. The higher the costs of computers, the higher people for it.
   B. As more computers are produced, the opportunity cost of each additional computer is less than for the previous unit.
   C. As more computers are produced, the opportunity cost of each additional computer is the same as for the previous unit.
   D. As more computers are produced, the opportunity cost of each additional computer is greater than for the previous unit.

4. In the Production Possibilities Frontier, economic growth can be described by _____.
   A. an inward shift of the frontier.
   B. an outward shift of the frontier.
   C. a straight-line frontier.
   D. a bowed outward frontier.

5. Which of the following is *not* included in this list of inputs?
   A. Labor.
   B. Land.
   C. Energy.
   D. Capital.

6. In a laissez-faire economic system _____.
   A. the government owns most nonhuman productive resources.
   B. government's role includes planning the economy's output.
   C. government's role is limited to protecting and enforcing property rights and providing public goods.
   D. the government takes on a substantial degree of economic and regulatory control over the private sector.

Continued...

7. Which location on the production possibilities curve represents scarcity?
   A. A point inside the production possibilities curve.
   B. A point along the production possibilities curve.
   C. The movement on the production possibilities curve from the Y-axis to X-axis.
   D. A point outside the production possibilities curve.

8. A capitalist economic system is beneficial to society because _____.
   A. there is the production of basic goods.
   B. social welfare would be the priority.
   C. there is the production of quality products
   D. there is the production of permissible goods.

9. As the price of a normal good decrease, the quantity demanded will _____.
   A. decrease.
   B. be uncertain.
   C. increase.
   D. be unchanged

10. If the demand for cheesecake decreases when income increases, this means that cheesecake is _____.
    A. a complementary good.
    B. a normal good.
    C. a luxury good.
    D. an inferior good.

11. The law of demand states that _____.
    A. a decrease in the price of a good will cause the demand curve to shift to the left.
    B. an increase in the price of a good will cause the demand curve to shift rightwards.
    C. the price of a good is negatively related to the quantity demanded of the good.
    D. the price of a good is positively related to the quantity demanded of the good.

12. A rightward shift in the demand for silk scarves might be caused by _____.
    A. an increase in the cost of production.
    B. a decrease in the number of buyers.
    C. the price of silk scarves increasing.
    D. an increase in the buyers' salary.

13. As the price decreases, the quantity supplied will _____.
    A. decrease.
    B. be uncertain.
    C. increase.
    D. be unchanged.

Continued...

14. If the price is below the equilibrium price, there would be the problem of _____ and the price will _____ towards the equilibrium price.
    A. surplus; increase.
    B. shortage; increase.
    C. surplus; decrease.
    D. shortage; decrease.

15. A severe flood caused serious damage to vegetable crops. This will result in the _____.
    A. demand for vegetables to drop.
    B. supply for vegetables to drop.
    C. quantity demanded of vegetables to drop.
    D. quantity supplied of vegetables to drop.

16. Market equilibrium is a situation where _____.
    A. price is higher than the equilibrium price.
    B. quantity demanded is greater than quantity supplied.
    C. quantity demanded equals quantity supplied.
    D. price is lower than the equilibrium price.

17. Suppose there is a shortage of football match tickets, we can predict that _____.
    A. the price of football match tickets will fall.
    B. the quantity of football match tickets sold and purchased is the same
    C. the price of football match tickets will rise.
    D. the quantity demanded football match tickets will be less than the quantity supplied.

18. Demand has unitary elasticity if _____.
    A. changes in total revenue are the same as changes in price.
    B. demand responds somewhat, but not a great deal, to changes in price. It always has a numerical value between zero and 1.
    C. the percentage change in quantity demanded is larger than the percentage change in price in absolute value (a demand elasticity with an absolute value greater than 1).
    D. the percentage change in the quantity of a product demanded is the same as the percentage change in price in absolute value (a demand elasticity of 1).

Continued...

19. Price elasticity of demand is defined as _____.
    A. a horizontal demand curve.
    B. the ratio of the percentage of change in quantity demanded to the percentage of change in income
    C. the ratio of the percentage of change in quantity supplied to the percentage of change in price.
    D. the ratio of the percentage of change in quantity demanded to the percentage of change in price.

20. For a demand curve to be more elastic _____.
    A. the item must be a necessity.
    B. there should be an availability of substitutes.
    C. there should be insufficient time to adjust to price changes.
    D. the item should represent a small portion of an individual's total budget.

21. Why is demand likely to become more elastic, or responsive, in the long run _____.
    A. In the long run, substitute goods are always available.
    B. In the long run, households always make effective adjustments to price changes immediately.
    C. In the long run, households make adjustments over time and producers develop substitute goods.
    D. In the long run, most items represent a small part of our total budget, so price changes go unnoticed.

22. Suppose the price of cars increases permanently by 20%. The most elastic would be _____.
    A. the momentary supply of cars
    B. the short-run supply of cars
    C. the long-run supply of cars
    D. the short run demand for cars

23. Assume that there are two commodities. A positive cross-elasticity of demand indicates that the two commodities are _____.
    A. essential goods
    B. inferior goods
    C. substitute goods
    D. complementary good

24. Price elasticity of supply is not influenced by _____.
    A. time frame
    B. perishability
    C. the price of other related goods
    D. improvement in production technology

Continued...

25. If the price elasticity of supply for a leather purse is 0.65 and the price increases by 3%, then the quantity supplied for the leather purse will _____.
    A. decrease by 1.95.
    B. decrease by 0.217.
    C. increase by 1.95.
    D. increase by 0.217.

26. Suppose Jane has $180 to spend on cookies and Frappuccino each month and that both goods must be purchased whole (no fractional units). Cookies cost $6 each, and Frappuccino costs $30 per cup. Jane's preferences for cookies and Frappuccino are summarized in **Exhibit 1** below.

Exhibit 1

Cookies				**Frappuccino**			
No. Per Month	TU	MU	MU/$	Cups Per Month	TU	MU	MU/$
1	28	28	4.67	1	150	150	
2	46	18		2	270	120	
3	62	16	2.67	3	360	90	
4	74	12		4	420	60	
5	80	6		5	450	30	
6	84	4	0.67	6	470	20	0.67

If Jane is a rational consumer who wants to maximize her utility, she will purchase _____.
    A. 5 cookies and 5 cups of Frappuccino.
    B. 6 cookies and 6 cups of Frappuccino.
    C. 2 cookies and 3 cups of Frappuccino.
    D. 4 cookies and 4 cups of Frappuccino.

27. Refer to **Exhibit 1**. Suppose Jane's income was slashed 20% by her boss due to the pandemic. What would be her new optimal combination of cookies and Frappuccino?
    A. 5 cookies and 5 cups of Frappuccino.
    B. 6 cookies and 6 cups of Frappuccino.
    C. 2 cookies and 3 cups of Frappuccino.
    D. 4 cookies and 4 cups of Frappuccino.

Continued...

28. More normal goods and leisure are consumed when the price of a normal good falls, or when wages rise, because of the income effect. What happens with the substitution effect?
    A. Fewer normal goods are purchased while more leisure is consumed, because the higher wage rate costs more in forgone wages.
    B. Fewer normal goods are purchased and less leisure is consumed, because the higher wage rate costs more in forgone wages.
    C. More normal goods are purchased and more leisure is consumed, because the higher wage rate costs less in forgone wages.
    D. More normal goods are purchased while less leisure is consumed, because the higher wage rate costs more in forgone wages.

29. A household budget constraint is defined by all the following except _____.
    A. product price.
    B. need.
    C. income.
    D. wealth.

30. If the price of a normal good falls, the substitution effect suggests that we will purchase _____ of that good, and the income effect suggests that we will purchase _____ of that good.
    A. more; less
    B. more; more
    C. less; more
    D. less; less

31. A firm earning zero economic profits is probably suffering losses from the standpoint of general accounting principles. Do you agree or disagree with this argument?

    It is actually earning a _____ given the extent of the risks involved. The full economic cost, including opportunity costs, is included in _____ cost but not in _____ cost.

    A. negative accounting profit; accounting; economic
    B. normal rate of return (or profit); accounting; economic
    C. negative accounting profit; economic; accounting
    D. normal rate of return (or profit); economic; accounting

32. In economics, the short run is a timeframe _____.
    A. in which firms are operating under a fixed scale of production.
    B. in which there are no variable costs.
    C. of one year or less.
    D. in which firms can enter and exit an industry.

Continued...

33. Following is information on the production levels of three different firms.
Firm A is currently producing at a quantity where it is experiencing increasing returns.
Firm B is currently producing at a quantity where it is experiencing diminishing returns.
Firm C is currently producing at a quantity where it is experiencing negative returns.
If each of the firms cuts its labor force, what will happen to its marginal product of labor (MP_L)?

For Firm A, MP_L _____. For Firm B, MP_L _____. For Firm C, MP_L _____.
A. falls; falls; rises
B. rises; falls; falls
C. falls; rises; rises
D. rises; rises; falls

34. Refer to **Exhibit 2.**

Exhibit 2

Daily Output	Technology 1		Technology 2		Technology 3	
	K	L	K	L	K	L
100	5	9	6	7	7	6
150	5	12	6	9	7	7
200	6	13	7	10	8	8

Suppose the firm is operating in a high-wage country, where capital cost is $100 per unit per day and labor cost is $80 per worker per day. For 150 units of output, _____ is the cheapest.

Now suppose the firm is operating in a low-wage country, where capital cost is $100 per unit per day, but labor cost is only $40 per unit per day. At 150 units of output, _____ is the least expensive.

A. Technology 3; Technology 2
B. Technology 2; Technology 3
C. Technology 1; Technology 2
D. Technology 3; Technology 1

35. Refer to **Exhibit 2** above. Suppose the firm moves from a low-wage to a high-wage country but its level of output remains constant at 150 units per day. Total employment will decrease by _____ and the total capital acquisition will increase by _____.
A. 3 workers; 1 unit
B. 5 workers; 2 units
C. 1 worker; 1 unit
D. 2 workers; 1 unit

Continued...

36. Consider the following costs of owning and operating a car. A RM230,000 of a SUV financed over 48 months at 6 percent interest means a monthly payment of approximately RM5,400. Insurance costs RM220 a month regardless of how much you drive. The car gets 20 km per liter and uses regular-grade gasoline that costs RM10 per liter. Finally, suppose that wear and tear on the car cost about RM5 per km. Which costs are fixed, and which are variable?
    A. Fixed costs are the monthly car payment, the cost of insurance, and costs associated with wear and tear; variable costs are the cost of gasoline.
    B. Fixed cost is the monthly car payment; variable costs are the cost of insurance, the cost of gasoline, and costs associated with wear and tear.
    C. Fixed costs are the monthly car payment and the cost of insurance; variable costs are the cost of gasoline and costs associated with wear and tear.
    D. Fixed costs are the monthly car payment, the cost of insurance, and the cost of gasoline; variable costs are the costs associated with wear and tear.

37. Refer to **Question 36.** The marginal cost of driving a kilometer is _____.
    A. RM10.00
    B. RM 5.50
    C. RM 5.00
    D. RM 0.50

38. Refer to **Question 36.** In deciding whether to drive from Terengganu to Kuala Lumpur (about 1,000 km round-trip), which costs would you consider? Why?
    A. Fixed costs because they will not change with total kilometer driven.
    B. Average costs because they will increase with each kilometer driven.
    C. Variable costs because they will increase with each kilometer driven.
    D. Fixed costs because they will increase with each kilometer driven.

39. All of the following are characteristics of firms in a perfectly competitive industry except _____.
    A. they produce identical products.
    B. they are price makers.
    C. there is easy entry and exit.
    D. they face a perfectly elastic demand curve.

40. Indicate whether you agree or disagree with the following statement.

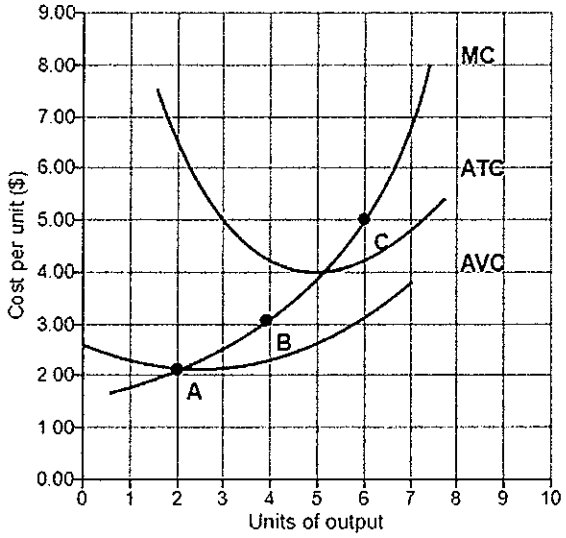
    "The marginal cost curve of any profit-maximizing firm is the firm's short-run supply curve."

    A. Agree: The MC curve is the supply curve below the minimum AVC.
    B. Disagree: The MC curve is the demand curve below the minimum AVC.
    C. Agree: The MC curve is the supply curve above the minimum AVC.
    D. Disagree: The MC curve is the demand curve above minimum AVC.

Continued...

41. Refer to **Exhibit 3.**

Exhibit 3



If the market price is at point B and the firm shown to the right is producing at point B, it is _____.

A. at the shutdown point.
B. earning a short-run economic loss.
C. earning an economic profit.
D. just breaking even.

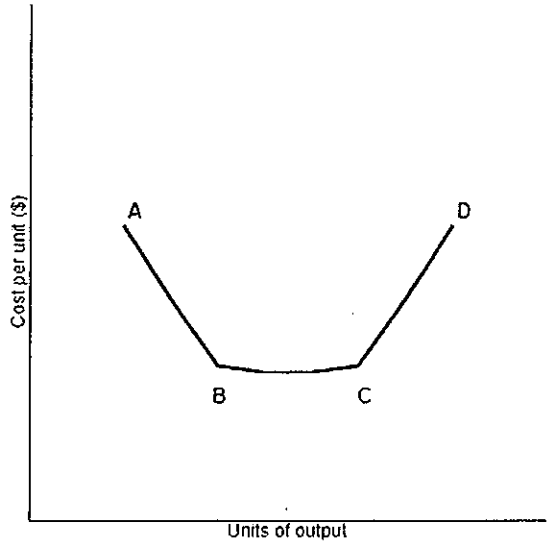
42. A perfectly competitive firm sells pineapples for $4 each. MR = MC at a quantity of 600 units. The average total cost at the profit-maximizing quantity is $2.75. This firm is earning a profit of _____.

A. $750.
B. $2,400.
C. $1,650.
D. This firm is not earning a profit.

Continued...

43. Refer to **Exhibit 4.**

Exhibit 4



Observe the firm's long-run average cost curve shown to the right. Between points A and B, there are _____.

A. diseconomies of scale.
B. economies of scale.
C. diminishing returns to scale.
D. constant return to scale.

44. A perfectly competitive market is in long-run equilibrium. If demand in this market suddenly increases, the price will _____ and firms will _____.

A. decrease; incur losses
B. increase; break-even
C. decrease; break-even
D. increase; earn a profit

45. A perfectly competitive market is in long-run equilibrium and demand in this market suddenly decreases. In this situation, firms will eventually _____ the industry and will ultimately earn _____ economic profits.

A. enter; zero
B. exit; negative
C. exit; zero
D. enter; positive

Continued...

46. EasyJet is the only airliner serving the route from Manchester, UK, to Thessaloniki, Greece. Do you think that this airliner has a monopoly in serving this particular route?
    A. It does have a monopoly as it is the only airliner serving this particular route.
    B. It does not have a monopoly as the airliner may not be earning monopoly profits.
    C. It does have a monopoly as, being the sole service provider, it can set a high price and make monopolistic profits.
    D. It does not have a monopoly as there may be alternative ways (substitutes) of traveling this route.

47. An industry with a single firm in which the entry of new firms is blocked is called _____.
    A. monopoly.
    B. monopolistic competition.
    C. perfect competition.
    D. oligopoly.

48. Because a monopoly is the only firm in an industry, it can charge virtually any price for its product. The statement is _____.
    A. incorrect because a monopoly is constrained by economies of scale.
    B. incorrect because new firms may enter a monopoly's industry.
    C. incorrect because a monopoly is not necessarily the only firm in an industry.
    D. incorrect because a monopoly is constrained by consumer demand.

49. Taylor Swift is a singer-songwriter whose pop album 1989 was the top-selling album of 2014, with 3.66 million copies sold in just its first 9 weeks of release. The path to success for pop musicians involves reducing the elasticity of demand that they face and building barriers to entry. That sounds like economic babble, but it has a lot of meaning. Using the language of economics and the concepts presented in this chapter, explain why lowering the elasticity of demand and building barriers to entry are exactly what Taylor Swift is trying to do.

    Lowering the elasticity of demand and building barriers to entry will benefit Taylor Swift because _____.
    A. a smaller number of pop musicians allows more coordination among other musicians.
    B. it increases her market competition and makes it possible to earn normal profits over time.
    C. it increases her market power and makes it possible to earn economic profits over time.
    D. the lower the elasticity of demand, the more revenue she can make by lowering the price.

Continued...

50. A monopolist maximizes profit by setting output where _____.
    A. MC is minimized.
    B. MR is maximized.
    C. MR = MC.
    D. All of the above are correct.

51. The deadweight loss or excess burden of a monopoly is the _____.
    A. loss in producer surplus resulting from underproduction
    B. loss in consumer and producer surplus resulting from underproduction
    C. loss in consumer and producer surplus resulting from overproduction
    D. difference between consumer and producer surplus at the monopoly's profit-maximizing output level

52. Which of the following is true regarding competition in an industry?
    A. Competition is greater if there are many competing firms or potential entrants.
    B. Conditions in the input market have no impact on competition between firms.
    C. Buyer preferences have no impact on competition between firms.
    D. Competition is greater if there are few competing firms or potential entrants.

53. The industry for airlines could be _____.
    A. an oligopoly because of difficulties of entry and high research and development costs.
    B. monopolistically competitive because there are many firms selling a differentiated product.
    C. an oligopoly because there are a few firms that are price takers.
    D. monopolistically competitive because there are many firms facing the limited entry of new firms.

54. The industry for clothing could be _____.
    A. an oligopoly because firms produce differentiated products and are price makers.
    B. monopolistically competitive or an oligopoly depending on the number of firms, market power, and potential entry.
    C. monopolistically competitive because there are many firms selling a differentiated product.
    D. monopolistically competitive because there are many firms facing the limited entry of new firms.

55. If all firms in an industry successfully engage in collusion, the resulting profit-maximizing price and output would be _____.
    A. more than if the industry was a monopoly.
    B. the same as if the industry was a monopoly.
    C. the same as if the industry was a competitive industry.
    D. more than if the industry was a competitive industry.

Continued...

56. Which of the following is not one of the characteristics of a monopolistically competitive industry?
    A. No barriers to entry.
    B. Large influence on market price.
    C. large number of firms.
    D. Product differentiation.

57. Refer to **Exhibit 5.**

Exhibit 5

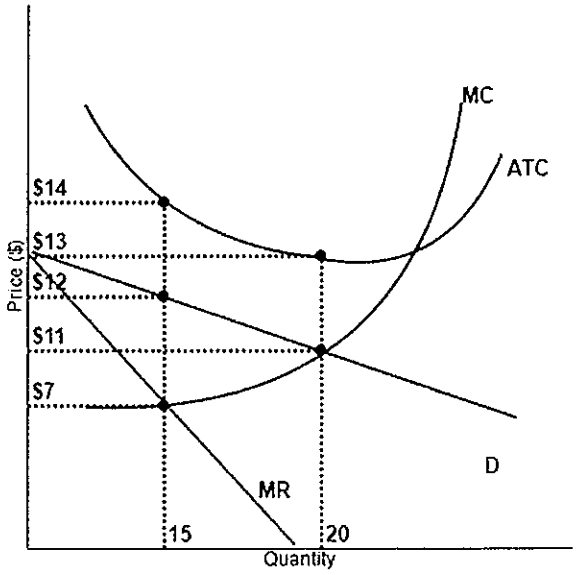


Exhibit 5 shows the structure of cost and demand facing a monopolistically competitive firm in the short run. Based on the figure, the profit-maximizing output level is _____ units of output, the profit-maximizing price is $_____, and the total profit or loss is $_____.
    A. 15; 14; 30
    B. 15; 12; 30
    C. 15; 7; 75
    D. 15; 12; -30

58. Refer to **Question 57**. In the long run, firms will _____.
    A. exit, shifting the demand facing the remaining firms to the right until the firms earn a normal profit.
    B. exit, shifting the demand facing the remaining firms to the right until the firms earn an economic profit.
    C. enter, shifting the demand facing the remaining firms to the left until the firms earn an economic profit.
    D. enter, shifting the demand facing the remaining firms to the left until the firms earn a normal profit.

Continued...

59. The demand curve faced by a monopolistic competitor is likely to be _____ elastic than the demand curve for a perfectly competitive firm and _____ elastic than the demand curve if the same market was monopolized.
    A. less; less
    B. more; more
    C. more; less
    D. less; more

60. Which of the following is true in the short run for monopolistically competitive firms?
    A. In the short run, firms will incur losses or break even.
    B. In the short run, firms will earn profits or break even.
    C. Firms will earn profits in the short run.
    D. Firms may earn profits, incur losses, or break even in the short run.

End of page.